

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 AGRE-00 DODE-00 /122 W
-----014104 212042Z /61

R 211859Z JUN 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3636
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY LONDON
USMISSION GENEVA
AMCONSUL MARSEILLE
AMCONSUL LYON
AMCONSUL NICE
AMCONSUL STRASBOURG
AMCONSUL BORDEAUX

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USEEC

USMTN

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, FR
SUBJECT: THE FINANCIAL HEALTH OF THE FRENCH CORPORATE
SECTOR

REF: A) PARIS 19614 B) PARIS A-116, 6/18/78

THE FOLLOWING PARAGRAPHS SUMMARIZE PARIS A-116,
POUCHED ON JUNE 21. IT SHOULD BE READ IN
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CONJUNCTION WITH REFTEL ON INDUSTRIAL POLICY.

SINCE 1974, FRENCH INDUSTRIALISTS HAVE DONE
CONSIDERABLE MOANING AND GROANING ABOUT THEIR
FINANCIAL WOES. FURTHERMORE, TWO SUCCESSIVE
GOVERNMENTS HAVE MADE RESTORATION OF CORPORATE
FINANCIAL HEALTH A PRIORITY GOAL. NO EVALUATION OF

GOF ECONOMIC POLICY OR OF FRENCH ECONOMIC PROSPECTS
IS THUS COMPLETE WITHOUT REFERENCE TO THE HEALTH OF
FRENCH CORPORATIONS.

A CLOSE STUDY OF CORPORATE FINANCIAL TRENDS IN
FRANCE DOES INDEED REVEAL A SIGNIFICANT MID-TERM
DETERIORATION. DURING THE 1960'S AND EARLY 1970'S
FRENCH FIRMS MOVED, ON THE AVERAGE, TOWARD HEAVIER BOR-
ROWING TO FINANCE INVESTMENT, INVENTORIES AND EVEN
CURRENT OPERATIONS. DESPITE STRONG OVERALL GROWTH
DURING THIS PERIOD, RAPIDLY RISING WAGES AND PAYROLL
TAXES WERE GRADUALLY ERODING CORPORATE OPERATING
MARGINS.

ALTHOUGH FIRMS WERE LESS AND LESS ABLE TO GENERATE
THE NEEDED CASH FLOW, MOST OF FRENCH INDUSTRY
NEVERTHELESS CONTINUED TO INVEST HEAVILY IN THE CONTEXT
OF RAPID ECONOMIC GROWTH AND BUSINESS OPTIMISM THAT

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R 211859Z JUN 78
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TO SECSTATE WASHDC 3637
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY LONDON
USMISSION GENEVA
AMCONSUL MARSEILLE
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PREVAILED UNTIL 1973. WITH THE 1974-75 RECESSION, HOWEVER, THERE WAS A SHARP DROP IN CORPORATE REVENUES AND EXISTING DEBT SUDDENTLY BECAME A SEVERE BURDEN FOR MANY FIRMS. THIS LED TO A SHARP CUTBACK IN INVESTMENT AND A PROLONGED EFFORT TO RESTORE CORPORATE FINANCIAL EQUILIBRIUM.

SINCE 1976 THE SITUATION HAS CLEARLY IMPROVED, ALTHOUGH NOT ENOUGH TO SATISFY CORPORATE TREASURERS IN MOST SECTORS. FRANCE'S PARTIAL ECONOMIC RECOVERY, COMBINED WITH SLOWER WAGE GROWTH AND LESSENERED BORROWING MADE POSSIBLE BY LOWER INVESTMENT, HAVE MEANT BETTER OPERATING RESULTS FOR MOST FIRMS. BUT FRENCH FIRMS ARE UNCLASSIFIED

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STILL FAR FROM THE RELATIVELY PLUSH DAYS OF THE L96U'S-- PARTLY BECAUSE OF SLOW ECONOMIC GROWTH SINCE MID-1977, AND PARTLY BECAUSE OF PRICE CONTROLS AND DIFFICULT FOREIGN COMPETITION IN SOME SECTORS. WHEN THE OVERALL RESULTS ARE BROKEN DOWN BY SECTOR, IT BECOMES CLEAR THAT SOME INDUSTRIES HAVE ALMOST FULLY RECOVERED (AUTOMOTIVE, MECHANICAL) AND SOME HAVE BARELY REBOUNDED AT ALL (IRON AND STEEL, TEXTILES).

NEVERTHELESS, COMPARED TO THE SITUATION IN OTHER MAJOR INDUSTRIAL NATIONS, FRENCH CORPORATIONS ARE BY NO MEANS IN DIRE STRAITS. THEIR GROSS OPERATING MARGINS, DEBT/EQUITY RATIOS, AND RETURN ON INVESTMENT ALL LOOK RESPECTABLE IN THE CONTEXT OF COMPARABLE MEASURES FOR THE US, GERMANY, JAPAN, ETC.

THE BARRE GOVERNMENT HAS NEVERTHELESS PUT STRONGER CORPORATE FINANCES NEAR THE TOP OF ITS PRIORITY LIST. BARRE ESPOUSES SLOW WAGE GROWTH, INDUSTRIAL PRICE FREEDOM, "TRUTH" IN PUBLIC SECTOR PRICING, AND GREATER INCENTIVES FOR SAVINGS FLOWS TOWARDS CORPORATIONS. IF ALL OR EVEN SOME OF THESE POLICIES ARE EFFECTIVELY IMPLEMENTED, FRENCH FIRMS WILL SEE THEIR FINANCES CONTINUE TO IMPROVE. THUS, FRENCH INDUSTRY COULD WELL BE IN A POSITION TO STEP UP INVESTMENT SIGNIFICANTLY, IF AND AS WARRANTED BY THE OVERALL ECONOMIC SITUATION IN 1979 AND 1980.

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